Development Theory and the Cold War: The Influence of Politics on Latin American Structuralism

Natália Bracarense

Abstract

Faced with a socially disruptive period, beginning in the 1920s, Classical Liberalism became inadequate to deal with economic and social crises. This inadequacy prompted economists to look for alternative theories. But, these same economic theories are discussed, taught and reproduced today as if they were formulated in a political vacuum. Ahistorical theories suggest universal and natural laws and powerless agents. This paper criticizes this dominant view by emphasizing two points. First, economic theories do not rely on natural laws, and rather result from a historical and social context. Second, economists are not passive, isolated theoreticians; they are socialized and directly impact the issues they theorize on.

To illustrate this argument, the origins of economic development theory are analyzed, with special focus on the work of Raúl Prebisch. When Prebisch developed his theoretical framework, he was faced with the challenges of creating a foundation for development policies in a context of Cold War. Moreover, Prebisch was immersed in a determined *mentalité*; he was part of a social network and institutional setting that transformed his ideas into an influential theory.

To strengthen the argument, an archival research at the UN Archives on Prebisch Papers and on other related papers is included. The paper also analyzes interviews from the UN Oral History Project, as well as other interviews with Prebisch, Hans Singer and Celso Furtado. A joint study of these primary sources not only provides a more accurate account of Prebisch's ideological premises, but also sheds light on the social connections among officials and how their ideas impacted each other and the UN's policy.

Introduction

The first half of the twentieth century marked a socially disruptive period; in a span of thirty years the world experienced two World Wars, numerous social upheavals in Europe, the Great Depression and the beginning of the Cold War. Faced with convulsive times, the dominant theoretical approach in economics – the neoclassical school – appeared inadequate; its premises assumed away problems of economic instability, crises and unemployment. This framework implied that the free market and its equilibrating forces would be sufficient to address most such issues.[1] Due to this inadequacy, various theoretical developments in economics emerged during this period. Beginning in the 1920s, economists recognized that it was necessary to defend capitalism through different theoretical approaches than that of

outmoded Classical Liberalism.[2] John Maynard Keynes (1932, pp. 312-322) figured prominently in this effort.[3]

By the end of World War II, Keynes's (1936) *General Theory*[4] seemed to provide a palatable alternative to neoclassicism while remaining within the confines of capitalism. For Keynes, the solution to economic instability and an inequitable distribution of wealth could be achieved through government intervention. Keynes's contribution was not only relevant to advanced capitalist economies, but also exerted influence on South American scholars, who began to look at their realities from a new vantage point. As a result, the next fifty years marked a period of rich and intense debate in economics. However, economic theories created in that period are currently discussed, taught and reproduced as if they were formulated in a political vacuum.

Ahistorical theories suggest universal and natural economic laws independent of social and historical contexts.[5] Facing the universality of these laws, agents in the model become impotent. Advocating for a diametrically opposed perspective, this paper brings the historical context to the fore and shows its influence on theory creation as a way of emphasizing that economic theory, in general, does not rely on natural laws. Agents are not dictated by economic processes – such as the workings of the market – but rather have alternatives.[6] This criticism of ahistorical theory is based on two points, one theoretical, the other methodological. First, economic theories do not rely on natural laws, and rather result from an historical and social context. Second, economists are not passive, isolated theoreticians; they are socialized and directly impact the issues on which they theorize. To unmask the pretense of neutrality, it is necessary to contextualize theories and theoreticians in their historical and social circumstances.

To illustrate this argument, the origins of economic development theory are analyzed, with special focus on the work of Raúl Prebisch – the father of Latin American Structuralism. The reason for focusing on development theory is based on the fact that economic policy in Latin America has, for the most part,

been prescribed from abroad. Over the past hundred years, there has been only one time when Latin American economists had an effective voice of their own. This voice took the form of Latin American Structuralism – a theory that examined the internal relations of Latin American countries and argued that the economy functions quite differently than those of the U.S. and Western Europe. Based on this premise, Structuralists felt the need for the creation of different theory and policy to understand and improve their economies.

This unique moment of incipient intellectual independence for Latin American economists occured during the Cold War. At first, this simultaneity seemed to be a coincidence. But studying the subject from an historical point of view, it becomes apparent that there was a clear connection between these two developments. In fact, development theory and the Cold War were born into the world together and grew up together.[7] But, the creation of a development theory for its own sake brought with it a debate that preceded its own birth, namely, competing communist and capitalist ideologies. The antagonism between communism and capitalism did not start with the Cold War; seeds of a future "Red Scare" were sown by the mid-1800s.[8] However, it is not until 1949 – the year in which the Truman Doctrine proclaimed the fight against communism[9]– that a foreign aid project aimed at modernizing developing countries through science and technology was established. It was at this point that peripheral areas were systematically attended to; both the U.S. and the U.S.S.R began devising development specific programs.

This era provided the context within which Prebisch's ideas became part of an influential theory. As pointed out by Celso Furtado (2007, pp. 4), "Prebisch was someone with ideas, when ideas were necessary because the ordinary liberal [neoclassical] ideas were completely inadequate."[10] By adapting Keynes's theory to the reality of underdeveloped countries, Prebisch "has created a school of thought that became the only truly influential school in the Third World" (Furtado, 2007, pp. 4). Keeping in mind the criticism of ahistorical theories above, it is important to notice two points in Prebisch's work. When

Prebisch developed his ideas, he aimed at giving theoretical foundation for an economic policy that strengthened the role played by capitalist institutions in underdeveloped countries, keeping them from falling under either social chaos or Soviet influence. Moreover, Prebisch was not an isolated individual, but on the contrary, he was an agent immersed in a determined *mentalité*; that is, a social environment that constrains, shapes and limits not only the answers given by social scientists, but also the very questions posed by them (Braudel, 1979, pp. 23-29).[11] In developing his theory, Prebisch was surrounded by a social network and institutional setting that transformed his ideas into an influential theory.

This paper argues that development theory – or any economic theory for that matter – is not a neutral science, applicable at any point in time and space. This discussion seems relevant due to reemergence of debate in development theory. Reintroducing previous economic theories in their historical context is the only legitimate way to draw lessons and derive new perspectives from them. Moreover, by emphazing the historical context, it becomes evident that the problem of "underdevelopment" is largely a matter of power relations, which means that there is no way for peripheral countries to break with their productive, financial and ideological dependency while they still emulate core countries as a way to promote and formulate a model of development.

To strengthen the argument, an archival research at the UN Archives on Prebisch Papers and on other related papers is included. This archival research aimed at finding: (i) their position on 'the communist menace'; (ii) how liberals' and the U.S. government's concern with communism affected their works; and (iii) how this historical context affected their theories and policy prescriptions.

The paper is divided into three sections, the sections showing how the Cold War affected the UN, the world, and economic theory. This organization builds upon Furtado's (2007, pp. 19) view that "the Cold War had deformed the UN. The world was deformed by its economic and ideological distortions." It is argued, in addition, that faced by the Cold War, economic theory did not endure intact. The first section shows the struggle for survival of ECLA amidst the conflict between the U.S. and the U.S.S.R. This section

is mostly based on my archival research of Prebisch Papers at the United Nations Archives. The second section gives the historical context of the Cold War focusing on its consequences in Latin America. The third section is dedicated to the theoretical debates on development theory waged during this period. Keeping in mind, however, that Prebisch was only one official at the UN, it seems reasonable to discuss other Structuralists who worked at the UN, over this period. For that matter, throughout the paper I present my research on the UN Oral History Project and other interviews, in which Prebisch and his colleagues expressed their views on the effect of the Cold War. A joint study of the Structuralists' work, the UN archives and oral histories provides a more accurate account of Prebisch's ideological background, shedding light on the historical context and how the UN officials collectively responded to that.

1. *Historical background: Cold War, two ideals, three stages*

The donation of funds for disaster relief by the U.S. dates to the late 19th century, but the big push in development aid for the Third World begins in the post-WWII era. This kind of program was facilitated by the creation of several international institutions such as the IMF, the World Bank and the UN (Iriye, 2002, pp. 1-59). Although most historians see the beginning of U.S. financial aid to underdeveloped countries – and the theories founding aid programs – as part of the U.S.'s fight for spheres of influence during the Cold War, most economists approach development theory without acknowledging political considerations. The historians' account of financial aid seems reasonable since the very concept of developed-underdeveloped countries came into the world with the Cold War. Hans Singer shared his view on the matter as a UN official; "during the Cold War, each of the two sides picked out the countries which they thought were leaning to their camp, or very important for them, and directed aid, and other support, to that group … [the idea was to fight] the Cold War through support of the developing countries, and buying their votes in the UN" (Singer, 2007, pp. 15). The purpose of this section is to remind economists of the four decades in which the U.S. and the U.S.S.R were fighting for spheres of influence. During this period, ideological conflict shaped, directly and indirectly, the everyday life of the global community.

- **The origins of Cold War and the creation of UN**

Despite their alliance against Germany, Italy and Japan, the relation between the Western Allies and the U.S.S.R. was a marriage of convenience. Disagreement, distrust and ideological differences stressed an already tense relationship between the U.S., UK, France, and the Soviet Union (Merrill and Paterson, 2009, pp. 206-231). The belief that a future bipolarization of the world was imminent hovered over the minds of political leaders at least since 1917 (Tucker, 2008).[12] As the controversies about the origin of the Cold War is not the focus of this dissertation and a more systematic concern with underdeveloped countries just started in the 1950s,[13] this work focuses on the post-WWII period.

By the end of WWII, there was the general feeling among Western authorities that WWII could have been avoided provided adequate institutions had been created following WWI. The Western authorities were zealous not to repeat the same errors committed in the post-WWI period (Staples, 2006). Singer explained that "the League of Nations … had become obsolete in our minds, partly by not having prevented the [Second World] war, or not having played any real role in the Great Depression that preceded the war in 1930s. The war had created a new starting point. The League of Nations had vanished into the mist of the past" (Singer, 2007, pp. 11).

On that note, the Western Allies desired a security system in which democratic governments were established as widely as possible, permitting countries to peacefully resolve differences through international organizations. It is within this context that the UN and the specialized international agencies such as the World Bank, the IMF, the ILO, among others, were created.

- **Controversies surrounding the creation of ECLA**

The United Nations was founded in 1945 to replace the League of Nations. Its function was to maintain international peace and security, facilitate cooperation in international law, economic development,

social progress, health and human rights.[14] Organizationally, the UN is divided into several specialized agencies, among which is the Economic and Social Council (UN-ECOSOC) as a part of the Department of Economic Affairs (ECA). Originally the UN-ECOSOC was divided into three Economic Regional Commissions: one for Europe (ECE), one for Asia and the Far East (ECAFE) and one for Latin America (ECLA). The objective of these commissions was the reconstruction of war-damaged regions and to advise newly independent nations in the construction of democratic governments. The U.S. had initially proposed the creation of only two regional commissions – the ECE and the ECAFE. According to Prebisch, "when Hernán Santa Cruz presented to the (UN-ECOSOC) his project for the creation of ECLA, naturally he encountered much opposition from the great powers, and especially from the U.S" (Prebisch, 2001, pp. 10). Formally, U.S. opposition was based on two arguments: one, Latin America did not host any battles during the war; and two, the Pan-American Union already had an Economic and Social Council (IA-ECOSOC). The real reason behind the U.S.'s preference for the establishment of IA-ECOSOC over ECLA's was that the OAS had just been created as a new institutional framework, underlying an "Economic Agreement" for the hemisphere. More importantly, the Charter of the UN allowed the U.S. to run their own affairs through O.A.S – that is, far away from the UN Security Council where Soviet veto power might be decisive.[15]

Latin American representatives had always been suspicious about integrating their economies into the U.S. industrial powerhouse (LaFeber, 1983, pp. 93). Faced with U.S. insistence for the creation of only two regional commissions at the UN, they repudiated regional favoritism and introduced a resolution that the UN also established ECLA. Santa Cruz's speech to the UN Secretariat in July 1947 expressed the sentiments of Latin Americans towards the objections from the great powers. With relation to the first argument, Santa Cruz explained that Latin Americans believed that after the sacrifice undertaken during WWII, the Great Powers should help neutralize productive and social imbalances caused by the war effort. An institution like ECLA within the UN was a necessary step towards social and economic

improvement in Latin America. Furthermore, the IA-ECOSOC was not adequate in those circumstances because, given the interconnected nature of the world economy, Latin America needed to be represented at the UN by an institution analogous to ECE and ECAFE, instead of relying solely on a Pan-American institution (United Nations Archives, 1947, pp. 15-16). After Santa Cruz managed to convince some governments to support the creation of ECLA, "the U.S. had no option but to accept, especially taking into consideration that the Commission was initially established for only three years, and perhaps with the idea in the back of their minds of merging ECLA with the Organization of American States" (Prebisch, 2001, pp. 10). For the next few years, the merger of ECLA and IA-ECOSOC was an unchanging objective for the U.S. government. Prebisch depicted one situation he experienced:

> When I was appointed Executive Secretary, an ambassador who was representing the United States at the O.A.S. … said to me, "My government does not like two organizations dealing with the same problems. So we have elaborated a project of merging the two ... I read the text carefully, and I said the following, "Mr. Ambassador, I fully understand your position. But I have to speak very frankly with you. The basis of our new organization, ECLA, is intellectual independence. This is the first opportunity for Latin Americans to start thinking with their own minds on economic problems. This has not been the case up to now." I was persuaded of that, after years of meditation when I had to leave the University of B[uenos] A[ires]. I added "I have to tell you frankly that you [the U.S. government] would be the dominating power in the new organization, as you dominate the Organization of American States. The Economic Department of that organization is dominated by the State Department. I understand this quite well. But understand my point of view. If I would have yielded my intellectual independence, perhaps I could have continued to serve the Argentine government. But I didn't. And I'm not going to change at this age" (Prebisch, 2001, pp. 10).[16]

In 1951, ECLA obtained the status of a permanent division in the UN (Dosman, 2009, pp. 236-272). Nevertheless, the debate about adequacy of ECLA's independence from the IA-ECOSOC continued until 1953. The real intentions of the IA-ECOSOC were clear to the high officials of the UN, who understood that the IA-ECOSOC held "glamour for coordination, which for them really means suppressing ECLA or doing as much as possible to throttle it" (United Nations Archives, 1953).[17] In fact, the U.S. government displayed uneasiness with the degree of intellectual independence and power that ECLA entertained.[18] Celso Furtado talked about his experience,

> Since the beginning, I realized that ECLA was a completely outstanding phenomenon, because Raúl Prebisch had succeeded to make his ideas known without submitting them to the UN Headquarters in New York. This was a huge victory. In those times, there was quite a censure in the New York Headquarters – topics that were convenient and topics that were not convenient, if it was a political conflict or not. Now, you imagine this small group of Latin Americans who had critical thinking and who did not accept commands from abroad, with a total freedom to think (Furtado, 2007, pp. 3-4).

Such a freedom of thought and speech was considered to be heresy (Furtado, 1985),[19] resulting in prompt and recurrent attempts to merge ECLA to its OAS counterpart. As noted by Prebisch, from the perspective of ECLA's officials, the merging of ECLA with IA-ECOSOC meant ideological and intellectual subordination to the United States. Alfonso Santa Cruz in a press release excerpt asserted that "proponents of merging idea don't analyze the magnificent weapons they are thereby furnishing those … important sectors in the industrial countries – supported by small groups in Latin American countries who have no vision nor conscience of the destiny or of the rights of their peoples – who do not wish either unity of Latin America or its economic development. It could be said that this idea was conceived by someone eager to tame Latin American people from the causes of free nations" (United Nations Archives, 1951a, pp. 2).[20]

Prebisch and Furtado tried to consolidate ECLA as a space in which Latin American economists could think on their own. Their idealization turned into a constant battle to maintain intellectual independence given the U.S. government's insistent intervention. The U.S. government's aspiration to keep ECLA under its intellectual tutelage came delivered under a cloak of anti-communist discourse. It is true that the Soviet Union attempted to increase its influence in Latin America on many occasions. But, were the Soviets likely to succeed?

Due to historical processes, notably colonization and immigration, Latin America held much stronger connections with Western European countries than with the U.S.S.R. Foreign aid programs presented no tendency to revert this situation — "most of the assistance came from the colonial countries themselves. And they, of course, in their own aid programs, would want to mold the developing countries in their own interests and in their own image" (Singer, 2007, pp. 21). The UN was established to

mediate conflicts between nations, maintaining its neutrality. It was difficult, however, to put this ideal into practice, because, "at the time, the Cold War was already in existence, and the idea was that the pressure was to bring these countries into the western camp by the nature of the government that was being set up or in the opposite case bring them into the eastern camp" (Singer, 2007, pp. 22). Ideological conflict between the U.S. and the U.S.S.R., in many circumstances, jeopardized the UN's and, in particular, ECLA's activities.

- **ECLA's perception of the communist menace: definition of ECLA's scope and membership**

Once the UN Secretariat had approved the resolution for the creation of ECLA, its geographical scope, membership and field of operations had to be defined. Since the U.S. had to sourly swallow the creation of ECLA, the latter was vitiated by the U.S. effort of neutralizing Soviet influence in Latin America. In fact, according to report written by Eugenio Castillo "during the discussion of the terms of reference before the UN-ECOSOC the U.S.S.R. sought a right for membership in the Commission, but it was the opinion of the majority of the Council that membership should be opened only to three countries outside the American continent" (United Nations Archives, 1948a, pp. 7). As a result, the geographical scope of the commission included the twenty Latin American State Members of the UN,[21] while membership in the Commission was open to members of the UN in North, Central and South America, the Caribbean area, and to France, the Netherlands and the United Kingdom. The justification for restricted membership took into account "the direct economic interests of the latter [three] countries in Latin America, their territorial possession in the region, and the traditional importance of the trade between Latin America and Western Europe" (United Nations Archives, 1948a, pp. 7).

This membership criteria appears to be quite arbitrary, since Portugal and Spain, historically the dominant colonizers of the region, were not included among the candidates for membership. More importantly, it is disquieting that an institution which aimed to improve economic and social conditions in Latin America was built upon the above justification for membership. Was ECLA created to assist Latin

America or to protect "the direct economic interest" of France, the Netherlands and the UK? The official memorandum defining the geographic scope of ECLA depicts the shift of imperialist domination; colonies are burdensome since the same imperialist relations can be maintained through foreign trade and capital flows. Moreover, the exclusion of U.S.S.R from ECLA's membership, and later from trade relations, put Latin American countries in a situation in which they had no alternative but to embrace the Western model of economic development —an ironically crude example of imperialistic economic intervention.

Finally, the fact that the Latin American leaders accepted such a condition suggests the ideological factor of the Western dominance. This ideological dependence was clear in Eugenio Castillo's memorandum on ECLA's prospect:

> when the report of the first session of the ECLA was considered by the ECOSOC, the great majority of its members gave their full approval … A minority view was expressed by the representative of the U.S.S.R. His position was that the economies of the Latin American countries were dominated by foreign capital that has seized control of big positions, and it appeared to him that the report, by failing to pay sufficient attention to the circumstances had in fact followed a course which opened the way to further penetration (United Nations Archives, 1948b, pp. 21).

No other comments on the subject were made. Castillo's wording was dismissive; had he thought that U.S.S.R input was pertinent, he would have referred to it differently. A sentence like *'although the great majority approved, an important point was raised by U.S.S.R'* provides another perspective on the matter. But rather, what we sense is Castillo's glee for having pleased all the Western participants, making the Soviet representative appear to be the outcast, an irrelevant outsider. This excerpt also illustrates that Soviet representatives could raise controversial points in the ECOSOC sessions regarding Western countries' imperialism in Latin America. This explains why the U.S. wanted to keep the hemispheric relations under the O.A.S. – that is, away from Soviet veto power at the UN.

- **Soviet invitation to visit**

When the Soviet Ambassador invited representatives of Latin American countries and senior members of ECLA to visit the Soviet Union, ECLA's officials saw themselves, once again, caught up in the conflict

between the U.S. and the U.S.S.R. The reason for the proposed visit was to familiarize Latin American leaders with the development of agriculture and industry in the U.S.S.R. and eventually establish mutually advantageous trade among the nations (United Nations Archives, 1954a, pp. 1).

Great commotion in the UN followed the invitation. After an intense exchange of correspondence between ECLA and the Department of Economic Affairs (ECA), the latter was required to make a detailed appraisal of the actions taken by the Regional Commission and report directly to the UN Secretary-General. The report on ECLA stated that "Dr. Prebisch simply transmitted the invitation and forwarded the replies to Headquarters for transmission to the USSR delegation. He was advised in May of the United Nations position" (United Nations Archives, 1954b, pp. 2).[22] This position was transmitted from the Secretary-General to the Executive Secretary, stating that "in such cases where representatives of the Commission's Secretariat have also been invited ... The Secretariat should therefore politely decline invitations of this nature" (United Nations Archives, 1954c, pp. 2).[23] The report concluded that Prebisch handle of the situation was adequate (United Nations Archives, 1954c, pp. 2).

The effects of such an invitation did not plague the UN so much as it did the U.S., which became immediately involved. According to a report from the U.S. government, the response of ECLA's Secretariat was not adequate, because "only selected members or associate member countries were invited … The invitation extended for the ECLA area includes only Latin American members." In other words, it did not include the U.S. The retaliation came in the form of official advice, stating that the U.S. government "believes that in future cases where invitations are extended to only certain members of a particular Regional Commission, it would be preferable for the Commission secretariats, in the absence of specific authorization, to take no part in transmitting the invitations, which properly should be handled on a bilateral basis" (United Nations Archives, 1955, pp. 2). That is, in case a similar invitation is repeated, ECLA should not even transmit the invitation to the member countries. The report continued:

> As far as the US is aware, no authorization for such trips appears in the current work program of any Commission … neither the Committee nor the Commission has authorized the

> secretariat to organize an agricultural survey trip to the USSR … Under these circumstances, the US government regards any organization or participation in these trips on the part of the secretariats of the Regional Commissions as exceeding their proper functions. The US government wishes to point out that this would be its position regarding any trips of this nature, regardless of the country concerned (United Nations Archives, 1955, pp. 2-3).

It is interesting to notice that Prebisch's reaction to the invitation was by no means matched by the U.S. government's pompous reproach. Prebisch emitted a sense of calm in the midst of frenzy. This begs the question of how legitimate a threat was the communist menace for ECLA officials. Did ECLA officials fear the Soviet Union's willingness to nurture closer relations? Or did U.S. retaliation seem more threatening?

Although the UN intended to avoid getting involved in political quibbles, its officials were not immune to McCarthyism. Prebisch expressed his sentiment for losing the presence of David Weintraub and Harold Caustin in the Department of Economic Affairs – "David Weintraub was a man who saw the problem of development and was enthusiastic about the work of ECLA. The same for Harold Caustin, a Briton. But under the circumstances, David Weintraub had to resign. Harold Caustin was transferred to other functions ... David was sacrificed by Trygve Lie in the time of McCarthy" (Prebisch, 2001, pp. 14).[24]

The Executive Secretary of ECE, Gunnar Myrdal,[25] received much more harassment than Prebisch and ECLA. The proximity of the Soviet Union to Western Europe and its membership in the ECE attracted frequent U.S. intervention in Myrdal's work in the ECE. In June of 1951, George A. Sloan – Chairman of U.S. Council of International Chamber of Commerce, New York – made a short statement attacking Myrdal's conduct as Executive Secretary of ECE and suggesting the dissolution of the Commission (United Nations Archives, 1951b, pp. 2). Myrdal's attempt to improve trade relations between Western Europe and the U.S.S.R. was not welcomed by officials in the U.S. Despite the threat from the U.S. government to seize the remittance of foreign aid and loans to European countries that negotiated with Soviet bloc countries, Myrdal was determined in his objective (United Nations Archives, 1951c).

Research on Myrdal Papers shows that Myrdal relentlessly struggled to overcome barriers imposed on the ECE's work by the Cold War mentality. Eventually the ECE became dormant, preventing

Myrdal from taking any substantial action. In 1960, this inertia hit all the UN Regional Commissions. Singer explained if "the spirit of the UN Secretariat in the early years—late 1940s and 1950s – was good … [it] gave way to disappointment by the 1960s. First McCarthy, you know, had a bad effect on morale in the UN, and then we also saw power slipping away from the UN when development funding [the International Development Association (IDA)] went to the World Bank" (Singer, 2007, pp. 19-20). That the UN was not an adequate institution to carry IDA and that it should be relocated in the World Bank was defended by the U.S. government. In Singer's (2007, pp. 21) view, this change meant a loss for the underdeveloped world, because "national sovereignty … was sacrosanct in the early days of the UN. And it is still more sacrosanct in the UN than it would be in the World Bank and IMF."

This section showed that the Cold War mentality affected directly the everyday life of ECLA's officials who struggled to keep their intellectual independence and to develop policy for Latin America. Similar battles were fought by Myrdal and other ECE officials. The UN Regional Commissions were not, however, the only entity affected by the Cold War. UN officials watched the distorting effects of the Cold War on the economic and political landscape of their countries. The next section presents an account on how geopolitics affected the world and, in particular, Latin America. We can then undertake an analysis of the effects of the Cold War on Prebisch's and his colleagues' work and theories.

2. The newly imagined Third World: decolonization, development and areas of influence

According to Akira Iriye (2002, pp. 60), the Chinese Revolution, followed by Korean War, marked the moment when the Cold War became more aggressive and militarized. At this point, governments extended their influence by increasingly invading private spheres. Equipped with a broader political strategy, the U.S. designed policies to spread its brand of democratic liberal ideology throughout the world. This strategy involved both direct and indirect intervention. The former, called hard-power intervention, implies domination through the use of coercive forces, typically military or economic. The

latter, known as soft-power interventions, refers to manipulation through cooperation and cultural influence (Nye Jr., 1990).

Examples of soft-power intervention included the efforts by Harry Truman and Dwight Eisenhower to promote U.S. tourism (Endy, 2004) and to export Hollywood movies to Europe (De Grazia, 2005) – government programs specifically developed to advertise the American way of life.[26] The U.S. released statistical reports in Europe comparing the standard of living of workers in the U.S. to the U.S.S.R. as advertisement of the success of its paradigm. A top priority of the CIA and academe was debunking exaggerated Soviet claims of growth and gaining access to top-secret information on the supposed Soviet economic and military threat. Toward that end, academic Institutes on "Sovietology" were created in the most prestigious universities, such as Columbia and Harvard (Engerman, 2010, pp. 235).

Hard-power intervention by the U.S. was also relevant, but the nature of this type of intervention modified over the period. Whereas up to the 1950s the great powers sought to expand their dominance by obtaining colonies, the mid-twentieth century witnessed a process of decolonization. This was reinforced by the view that hard-power need not be exerted through military occupation, but could be exercised through the less onerous mechanism of international trade and capital flows. But, despite the shift from a militarized to an economic strategy of hard-power intervention, military intervention was not entirely excluded from geopolitics. Korea and Vietnam, for instance, experienced a militarized hard-power intervention. During the Cold War, Korea and Vietnam saw their countries divided: one half became part of the U.S. sphere of influence, the other part of the Soviet sphere of influence. In South Korea and South Vietnam, non-representative leaders were imposed by the U.S., generating localized rebellions which turned these countries into Cold War's hot spots (Brigham, 2006).

In Latin America, however, U.S. political strategy remained largely unchanged since those countries became independent: whatever the economic model imposed (liberalism or Keynesianism), U.S.

private corporations took the lead in the region, while U.S. government intervened when corporate interests were threatened (O'Brien, 1999). Prior to WWII, the U.S. laid claim to Latin America as its area of influence (Grandin, 2006).[27] True to its liberal ideology, government influence was exercised indirectly through private corporations – turning Latin America into an economic system integrated "into the international trading system via an 'outward-oriented' development strategy based on exports of primary commodities" (Kregel, 2008, pp. 542).

The U.S. attempts to influence Latin America were not unchallenged; workers, peasants and white collar professionals united forces to fight against burgeoning oligarchic capitalism in their countries. Rebellions gained strength in the late 1940s and early 1950s, with Marxist and anti-colonialist views influencing South American countries during the Cold War. According to Singer, "the prestige of Russia was very high at that time, ... the idea of five-year plans which Mahalanobis developed for India, and which then became very influential in Latin America too, and throughout developing countries, was very much influenced by Russia" (Singer, 2007, pp. 12). From Venezuela to Chile, political movements came to power to challenge the American hold over their economies. Ardent Latin American democratic movements required greater caution on the part of the U.S. government and corporations. Apart from the theoretical developments of the period, concrete issues demanded practical solutions. The fear that populism would merge with communism sheds light on the U.S. government's willingness to promote capitalist development in the region while compromising its liberal faith. By the time of the Cold War, the U.S. adopted a more proactive role; Washington and multinational companies proposed a partnership with Latin American governments in the pursuit of economic development through domestic industrialization. This alliance broadened and increased the North American presence in the region (O'Brien, 1999, pp. 99-101).

As a consequence of the above development, the policy model implemented in the post-War period was based on the Prebisch-Singer thesis, which prescribed selective protectionist and import-

substitution industrialization policies. Prebisch's effort in this direction was crucial for its success. According to Singer (2007, pp. 19), "ECLA had played a dynamic role in economic leadership in the form of Prebisch. And they had a great advantage, for Prebisch became sort of a national hero all over Latin America. He was supported by all the Latin American governments and delegations in any of the discussions or proposals." Latin American governments ultimately agreed with this more cooperative alliance (O'Brien, 1999, pp. 101-136).

The U.S. government was anxious to strengthen its economic ties in South America and became more deeply involved in the region. For the first time, massive efforts were directed to construct a consumerist culture in that region. In the effort to promote development in Latin America, American corporations turned their attention to manufacturing. Most U.S. corporations embraced import-substitution industrialization policies and built plants in the area. In the immediate post-WWII period, the U.S. government avoided direct intervention, keeping a cooperative policy through its own foreign aid programs and the activities of international agencies. In cases where a threat was perceived, the U.S. turned to the covert operatives of the CIA (O'Brien, 101-136).[28]

The prosperity of U.S. business in Latin America eventually heightened suspicion. While the backbone of the populist governments of the 1940s and 1950s was the urban workers and white-collar professionals, the rural population was largely excluded from any benefits provided by public policies. Corporation reform had done little to assuage dissent and solve the basic problems of poverty and social injustice. Latin American countries faced increasing inflation and growing disparity between rich and poor. Growing dissatisfaction with the shortcomings of populism and continued domination of U.S. corporations eventually fused into a new series of radical political movements.

The heated political arena in Latin America resulted in the election of even more leftist presidents in the 1960s (e.g. in Cuba, Peru, Chile, and Brazil). These governments engaged in massive expropriations of U.S. corporations, the result being a wave of military interventions in which presidents were deposed

by military coups.[29] The military juntas, in their turn, agreed to cooperate with North American government and businesses. Up until the end of the 1970s, North American interests were maintained by the same pattern of cooperation between the U.S. government, U.S. businesses and local governments. The only significant difference was that authoritarian governments were established to control workers' resistance by force, putting communism out of the picture. During this period, U.S. investment in Latin America increased rapidly alongside deteriorating conditions for workers. These conditions included diminishing human and political rights and a reduced standard of living.[30] The model was very successful for U.S. interests, and by the 1970s neoliberal policies could be implemented without fearing a communist backlash (O'Brien, 1999, pp. 137-170).

Given this incestuous background, it is difficult to believe that economic theory could possibly be unaffected by the geopolitics of the period. The next section sheds lights on how this historical context affected the literature concerning the peripheral world during this time.

3. The birth of development theory

This section gives a brief summary of the Structuralist theory of development and the topics debated during the first ten years of the Cold War. It reinforces the view that it is unreasonable to treat development theory – or any economic theory for that matter – as a neutral science, in the sense of a transhistorical body of knowledge. A contextualized development theory brings with it some combination of mentality, ideology and/or vested interest. A brief appraisal of development theories from the 1950s makes explicit the mindset at the beginning of the Cold War.

Theoreticians from the vicious circle school were the first to use the term underdevelopment. The leaders of this group, Paul Rosenstein-Rodan and Ragnar Nurkse pointed to low productivity and shortages of capital as the ultimate cause of underdevelopment. In Nurkse's framework, for instance, the difference between underdeveloped and developed countries is the shortage of capital. The vicious circle runs as follows: capital shortage means insufficiency of domestic capital accumulation which, in turn,

results from a low rate of savings. The latter is low because per capital national income is low, which again cannot grow because of the low productivity due to capital shortage (Szente, 1971).The defining characteristic of underdevelopment was, thus, the tendency to maintain equilibrium with sustained unemployment. In order to overcome underdevelopment, they suggested that the vicious circle of poverty must be broken through industrialization. The vicious circle theory had three main flaws. First, they did not make clear the way by which the circle was to be broken – through government intervention or by giving incentives to private sector investments. Consequently, the vicious circle explanation for underdevelopment did not offer solid guidelines for financial aid policy. Second, it used a closed circular flow to explain underdevelopment that, on the one hand, lacked a historical understanding of underdevelopment and, on the other hand, abstracted the economy from its broader world system. Third, it was based on neoclassical equilibrium growth models, in which savings cause investment. This puts this theory in stark contrasts with Keynes/Harrod's growth models that view savings as a result of investment and not its cause. Two theories were later formulated to fill these gaps: stage growth theory and the disequilibrium growth models.

Responding to a request from Eisenhower to elaborate a theory of development, Walt Rostow wrote *The Stages of Economic Growth: a non-communist manifesto*, in 1952 (Engerman, 2003). In this book, Rostow proudly trumpets foreign aid programs to former colonial regions and Latin America as an antidote to Communist revolution and a harbinger of capitalist growth. As an explicit response to Marxism, Rostow represented the development of all societies through stages of a uniform process of development – Rostow's archetype was U.S. capitalism. This approach ignored the social particularities of underdeveloped countries, while conceiving traditional societies as proto-capitalist ore pre-capitalist.[31]

Alternatively, Structuralists believed that underdevelopment could not be satisfactorily explained solely by internal factors which, through a process of negative feedback, determined a sub-optimal equilibrium. They applied Harrod's (1939) growth models to their economic realities, showing that growth

does not follow an equilibrium path but, on the contrary, economic growth engendered instability and imbalance.[32] Furthermore, Structuralists did not believe that development could be seen as a natural stage in the general process of growth. Latin America presented its own specificities and, therefore, was not a rudimentary stage of an advanced capitalist economy. On this subject, Prebisch (1949, pp. 54) pointed out that "one of the most serious failures of the economic theory in general, from a view point of the periphery, is its false sense of universality." Thus, "while he applauded Keynes for turning the free-market chain of causation on its head in his attack on the guardians of orthodoxy, Prebisch felt that Keynes had gone only half the distance in explaining the dilemma of countries outside the core economies" (Dosman, 2009, pp. 218).

In sum, although Structuralists emphasized the importance of the social structures peculiar to Latin America to explain underdevelopment, they believed that "to attribute to internal factors what very frequently was the result of external factors was a real calamity, a real theoretical calamity" (Prebisch, 2001, pp. 19). This was precisely what motivated Gunnar Myrdal (1954) to introduce international trade as a mechanism that exacerbated underdevelopment. For Myrdal, the tendency of laissez-faire to reinforce already existing inequalities called for national governments to direct foreign financial aid in order to stabilize and ameliorate conditions in underdeveloped countries.

Myrdal's model did not really explain underdevelopment though. It showed how the free play of market forces affected already existing inequalities. His ideas on international trade, however, were picked up by Prebisch and Singer. For these scholars, the primary obstacle to prosperity for underdeveloped countries was their unfavorable position in international trade. Prebisch pointed out that the function of the peripheral world was to provide foodstuffs and raw materials for the center. In direct confrontation with David Ricardo's theory of comparative advantage – later incorporated into neoliberal development discourse – Prebisch denied that the international division of labor permitted the advantages of trade to peripheral countries. Prebisch's solution for the problem was to substitute capital-

goods importation for a process of industrialization of underdeveloped countries promoted by financial aid (i.e. an import-substitution industrialization (ISI) strategy).

Prebisch did not see a contradiction between developed and underdeveloped countries. His main argument was that governments were capable of achieving what the supposed free play of market forces could not; namely, an optimal equilibrium and thereby mutual advantages of international trade. Celso Furtado, though, was more influenced by Marx. From his perspective there was a contradiction in the very idea of underdevelopment; "the reality of underdevelopment – it is not certain that it existed – … implied, to a certain extent, the acceptance of the theory of international domination. [However] we used to say that the theory of international dominance was Marxism, imperialism, Hobson and his cursed ideas. These ideas were not accepted, they were not considered to be serious; it was not economics. To talk about domination was considered to be a fantasy" (Furtado, 2007, pp. 3). The lack of space for Marxism in Latin America urged all Marxists of the region to support Prebisch's theory (Furtado, 2007, pp. 4).

According to Singer (2007), development theoreticians faced great difficulties because planning and Marxism became cursedly synonymous. He explained that:

> once the Cold War had started, the idea of central planning was associated with Russia. Therefore, quite naturally, the ideas of development planning which we developed became very unpopular with right-wing conservatives, specifically with the McCarthyites. In that sense, we got involved in the Cold War because of our emphasis on national planning—and even the idea of industrialization, which Stalin promoted so ruthlessly in Russia. All this, plus the idea of raising productivity in other cultures by government planning, when the Cold War started, became associated with communism and, therefore, became very unpopular (pp. 12-13)

Singer (2007, pp. 13) added that "in my own case, it didn't stop me from advocating a policy of import substituting industrialization. It certainly didn't stop Prebisch." In his interview, Prebisch (2001) said his solution to this problem was to substitute the word "programming" for "planning" whenever he meant "planning".[33] Furtado remembered that "Prebisch was very careful with the terms he used... But he had succeeded in his prowess of saying what we wanted. For me underdevelopment was a matter of

imperialism. But he would talk about the center and the periphery, a neutral description" (Furtado, 2007, pp. 4).

Whatever the Structuralists were talking about, it is clear that their strong emphasis on an active and centralized state to promote development in the Third World represented a departure from liberalism. From the neoclassical liberal perspective, foreign aid should be eliminated altogether and substituted by private foreign investment. Guardians of liberalism argued that industrialization efforts were bound to fail and, therefore, underdeveloped countries should focus their efforts on producing agricultural commodities. Their recommendations for development policies were *export-oriented strategies* based on traditional agriculture, relying solely on *private* foreign capital (Ropke, 1953).[34]

According to Singer, in the beginning the opponents were not so much involved in political organizations, such as the World Bank and the IMF, but rather came from academia. In fact, already in the 1920s and 1930s, Friedrich von Hayek, Ludwig von Mises and other members of the future Mont Pelérin Society (MPS)[35] started planning an attack on Keynesianism and joined forces to resurrect liberal ideology.[36] The members of the MPS formed multiple study groups, each group responsible for a specific matter troubling liberal philosophy. The group concerned with development was organized around the fear that an ill-conceived strategy to deal with underdeveloped countries could be advantageous to the spread of communism (Motteli, 1951). However, by the end of the 1950s this fear was greatly diminished. Liberals launched a direct attack on Structuralism, claiming that Structuralism was based on the fallacy that the world was divided into developed and underdeveloped parts (Bauer, 1958). This fallacious assumption was responsible for the creation of special economic development measures. Peter Bauer then introduced a *one-size-fits-all model* to deal with both underdeveloped and developed countries. A few years later, Structuralism was "outdated". The model which emphasized the importance of politics and planning to get rid of underdevelopment was replaced by a model which confined the economy to

the market – “we saw a counterrevolution that transformed the world into a single economy” (Furtado, 2007, pp. 12).

Concluding Remarks

The interviews with Furtado, Singer and Prebisch – as well as documents at the UN ARMS archives – provide evidence of the relevance of the Cold War to the latter’s work, reinforcing the argument that an understanding of history is a precondition to understanding economic theory. Moreover, archival research shows that, at least initially, the historical context provided a support for the creation of alternative theoretical approaches to Classical Liberalism. Some of the circumstances motivating new theoretical approaches included: the stress generated by the devastation of Asian and European countries during WWII, the fear of repeating the same errors committed during the post-WWI period, the “communist threat”, and the inadequacy of neoclassical theory to deal with political and economic instability. This context allowed Prebisch, Singer, Myrdal and others to call for greater government participation in the economy to reduce inequality and mitigate misery throughout the world.

Their hope for a new world was later frustrated in the 1950s when McCarthyanism spread to the UN. Because of this Prebisch was considered to be a heretic, while his efforts for industrialization of Latin America were attacked by neoliberal academics. Prebisch and Furtado saw ECLA as a place in which Latin American economists could think in their own terms, free from the paternalistic influence of the North. Anti-communist pursuits by the U.S. government, in addition to neoliberal academic attacks on Structuralism, presented barriers to Prebisch’s work at ECLA. Eagerness to demobilize ECLA was materialized when the IDA was transferred from the UN to the World Bank. And by the 1960, the IMF and World Bank had adopted a one-size-fits-all model, signaling the resurrection of liberalism.

It is interesting to note that whenever the Soviets attempted to influence Myrdal and Prebisch, they did not react as if threatened by a communist menace. U.S. government reaction, however, was fast

and forceful. This supports the belief that ostensibly defining issue of our time – the Cold War – was imposed on the peripheral world.

The events taking place at the UN, in academia and in the world reinforced one another. Just as the UN and the world were deformed by the Cold War, so was economic theory. That the latter cannot be neutral is evident when its historical context is reintroduced. This, then, raises the question of whether the concept of development is flawed and, if so, should be "unthought". The mechanism by which international aid is presented as beneficial to humankind and historically inevitable is part of an "ilusion of the epoch" – imposing the will of advanced countries on the peripheral world. If this is so, should not idealist models of development based on advanced countries be discarded?

Bibliographic Reference

Bauer, P. (1958) Economic Growth and the New Orthodoxy, *Fortune*, May, pp. 142, 143, 194, 196-198.

Braudel, F. (1979) *The Structure of Everyday Life, vol. 1 of Civilization and Capitalism 15th-18th Century* (New York, Harper&Row).

Brigham, R. (2006) *Iraq, Vietnam, and the Limits of American Power* (New York, Public Affairs).

Cullather, N. (1999) *Secret History: The CIA's classified account of its operations in Guatemala, 1952-1954* (Stanford, Stanford University Press).

De Grazia, V. (2005) *Irresistible Empire* (London, Harvard University Press).

Dosman, E. (2009) *The life and times of Raúl Prebisch* (London, McGill-Queen's University Press).

Endy, C. (2004) *Cold War Holidays: American Tourism in France* (Chapel Hill, University of North Carolina Press).

Engerman, D. *et al.* (2003) *Staging Growth: Modernization, Development, and the Cold War* (Amherst, University of Massachusetts Press).

Engerman, D. (2010) The Price of Success: Economic Sovietology, Development, and the Costs of Interdisciplinarity, in: Backhouse, R. and Fontaine, P. (Eds) *The Unsocial Social Science? Economics and Neighboring Disciplines since 1945* (Durham, Duke University Press).

Furtado, C. (1985) *A Fantasia Organizada* (Sao Paulo, Terra e Paz).

____. (2007) The Oral History Interview, January 7th, 2000, in: *The Complete Oral History Transcripts from UN Voices, CD-ROM* (New York, United Nations Intellectual History Project).

Gaddis, J. L. (1900) *Russia, the Soviet Union and the United States: An Interpretative History* (London, McGraw-Hill).

Grandin, G. (2006) *Empire's Workshop:* Latin America, the United States, and the Rise of the New Imperialism (New York, Holt and Company LLC).

Harrod, R. (1939) An Essay in Dynamic Theory, *Economic Journal* 49, pp. 14-33.

Henry, J. (2009) The Illusion of the Epoch: Neoclassical Economics as a Case Study, *Studi e Note di Economia* XIV, n.1, pp. 27-44.

____. (2010) The Historical Roots of the Neoliberal Program, *Journal of Economic Issues* XLIV, n. 2, pp. 543-550.

Iriye, A. (2002) *Global Communities: The Role of International Organizations in the Making of the Contemporary World* (Berkeley, University of California Press).

Keynes, J. M. (1932) The End of Laissez-Faire (1926), in: Keynes, J. M. (Ed) *Essays in Persuasion* (New York, Harcourt, Brace and Company).

____. (1936) *The General Theory of Employment, Interest and Money* (London, Macmillan).

Kregel, J. (1980) Economic Dynamics and the Theory of Steady Growth: An Historical Essay on Harrod's Knife Edge, *History of Political Economy* 12, pp. 97-123.

____. (2008) The Discrete Charm of the Washington Consensus, *Journal of Post-Keynesian Economics* 30, vol. 4, pp. 541-560.

LaFeber, W. (1983) *Inevitable Revolutions: The United States in Central America* (New York, W.W. Norton & Company).

Lawson, T. (1997) *Economics and Reality* (London: Routledge, 1997).

Meek, R. (1967) *Economics and Ideology and Other Essays: Studies in the Development of Economic Thought* (London, Chapman & Hall).

Merrill, D. and Paterson, T. (2009) *Major Problems in American Foreign Relations* (London/Farmington Hills, Gale/Cengage).

Mises von, L. (1927) Das Ende des Laissez-Faire, Ideen zur Verbindung von Privat- und Gemeinwirtschaft, *Zeitschrift für die gesamte Staatswissenschaft* 82, pp. 190-91. Translation in: http://mises.org/daily/172

Motteli, C. (1951) The Regeneration of Liberalism, *Swiss Review of World Affairs,* November.

Myrdal, G. (1954) *The Political Element in the Development of Economic Theory* (Cambridge, Harvard University Press).

Nye Jr., J. (1990) *Bound to Lead: The Changing Nature of American Power* (New York, Basic Books).

O'Brien, T. (1999) *The Century of U.S Capitalism in Latin America* (Albuquerque, University of New Mexico Press).

Prebisch, R. (1949) O Desenvolvimento Econômico da América Latina e Seus Principais Problemas, *Revista Brasileira de Economia*, pp. 47-111.

____. (2001) Interview by David Pollock, Daniel Kerner and Joseph Love, "Raúl Prebisch on ECLAC's Achievements and Deficiencies: an unpublished interview," *Cepal Review 75*, pp. 9-22.

Qureshi, L. (2010) *Nixon, Kissinger, and Allende: U.S. Involvement in the 1973 Coup in Chile* (Lanham: Lexington Books).

Ropke, W. (1953) Unterwickelte Lander, *Ordo* 5, pp. 63-113.

Rostow, W. (1952) *The Stages of Economic Growth: a Non-Communist Manifesto* (Cambridge, Cambridge University Press).

Saunders, F. (1999) *The Cultural Cold War* (New York: The New Press).

Singer, H. (2007) The Oral History Interview, January 2nd, 2000, in: *The Complete Oral History Transcripts from UN Voices, CD-ROM* (New York: United Nations Intellectual History Project).

Staples, A. (2006) *The Birth of Development: How the World Bank, Food and Agriculture Organization, and World Health Organization Changed the World, 1945-1965* (Kent, Ohio, The Kent State University Press).

Szente, T. (1971) *The Political Economy of Underdevelopment* (Budapest: Akademiai Kiado).

Toye, J. and Toye, R. (2005) *The UN and Global Political Economy* (Indianapolis: Indiana University Press).

Tucker, S. (2008) *Encyclopedia of the Cold War: A Political, Social, and Military History* (Santa Barbara: ABC Clio).

United Nations Archives (1947) Speech of Chilean Delegation to the United Nations, July 31st, in: *Economic Commission for Latin America. Chilean Delegation Request for the Creation of ECLA*, S-0441-0175-05.

United Nations Archives (1948a) ECLA: Field of Operation/Scope and Membership, November, in: *Office of Assistant General Secretary. Regional Commissions Section (ECLA)*, S-0932-0012-06.

United Nations Archives (1948b) ECLA's Prospect, November, in: *Office of Assistant General Secretary. Regional Commissions Section (ECLA)*, S-0932-0012-06.

United Nations Archives (1951a) Boletín de Prensa: Declaraciones del Presidente del Consejo Económico y Social acerca de CEPAL, March 10th, in: *Economic Commission for Latin America. Proposed Merger with IA-ECOSOC,* S-0441-0175-06.

United Nations Archives (1951b) Letter from Vaslac Kostelecký to Gunnar Myrdal (ECE Executive Secretary), June, 18th, in: *Economic Commission for Europe. Correspondence between Executive Secretary and Secretary General (Trygve Lie),* S-0240-0003-06.

United Nations Archives (1951c) Sous le Peine d'Être Privés d'Aide Américaine Les Pays Allies des Etats-Unis Ne Pourront Pas Exporter Certains Produits Stratégique vers l'Est, *Le Monde*, Dec., 28th, in: *Economic Commission for Europe. Correspondence between Executive Secretary and Secretary General (Trygve Lie)*, S-0240-0004-01.

United Nations Archives (1953) Letter from Harold Caustin (Acting Assistant of the Secretary General) to Wladek Malinowski (Chief of Department of Economic Affairs), February, in: *Office of the Assistant Secretary-General. Regional Commission Section (ECLA)*, S-0932-0015-04.

United Nations Archives (1954a) Interoffice Memorandum: USSR Invitation to Latin American Governments and ECLA Secretariat, May 31st, in: *Economic Commission for Latin America. Visit to USSR,* S-0441-0175-07.

United Nations Archives (1954b) Letter from Officer in Charge, ECA (William Leonard) to Executive Assistant to the Secretary-General (Andrew Cordier), Sept. 2nd, in: *Economic Commission for Latin America. Visit to USSR*, S-0441-0175-07.

United Nations Archives (1954c) Letter from Wladek Malinowski (Chief of Regional Commissions ECA) to Roy Blough (Principal Director ECA), December 7th, in: *Economic Commission for Latin America. Visit to USSR,* S-0441-0175-07.

United Nations Archives (1955) Aide Memoire, April 20th, in: *Economic Commission for Latin America. Visit to USSR. United States Mission to the United Nations*, S-0441-0175-07.

United Nations (2011) UN at a Glance, in: http://www.un.org/en/aboutun/index (Accessed March 28th, 2011).

United States of America (1961). Address by President Kennedy at a White House Reception for Latin American Diplomats and Members of Congress, April 3rd, in: *The Department of State Bulletin XLIV,* n. 1136, pp. 471-474.

Notes

[1] The validity of the postulates of Classical Liberalism depended on a perfectly competitive market structure characterized by an infinite number of small property owners who produce homogenous goods and have no privileged or monopoly position. This structure allows "the internal adjustment processes that produce the putative optimal outcomes" (Henry, 2010, pp. 544).

[2] Classical Liberalism was incompatible with the economic structures emerging in the second half of the nineteenth century – when the capitalist economy increasingly exhibited non-competitive, oligopolistic structures as the prevailing form of organization (Henry, 2010, pp. 544).

[3] In "The End of Laissez Faire," Keynes argued that the main assumptions of liberal ideology – such as the view of private propriety as a natural law, the conflation of individual liberty and free-market, the existence of an invisible hand of the market, guaranteeing that the aggregate of self-interested individual actions will result into the maximization of social welfare, among others – were invalid. Keynes, then, defended the thesis that the State needs to act in those areas in which the private sector is not interested to invest as a way of reducing economic instability and offering a satisfactory way of life to all members of society.

[4] Keynes demonstrated that insufficient aggregate demand impedes a monetary production economy from achieving full employment. In this sense, Keynes distanced himself from the neoclassical tradition, which argued, from a loanable funds perspective – i.e. the interest rate guarantees that everything that is saved is transformed into investment – that the economy would always be at full employment.

[5] Henry (2009, pp. 27-44) demonstrates how neoclassical economics has been molded to argue that capitalism results from natural laws.

[6] Although the definition of mainstream economics states that economics is about how people make choices, the way the models are set up ultimately leave no space for human choice. In fact, agents are considered to make economic decisions based on rational choice and the models state there is only one way of behaving rationally given individuals' preferences and endowments. Since there is only one possible way of behaving in this economy, the economic outcome depends on preferences and endowments, which are fixed and part of *a priori* assumptions. In sum, human choice is ultimately denied in mainstream models. (Lawson, 1997, pp. 8-9).

[7] Although some authors such as Ragnar Nurkse and Paul Rosenstein-Rodan started writing on development to solve the problems of backwardness and poverty in South and Eastern-Europe, in the 1950s there was a shift in discipline and, consequently, in the meaning of development theory. In the 1950s development received the meaning it has today, becoming related with economic policies for the Third World.

[8] In the second half of the 19th century, workers' movements in Europe began to gain momentum due to a confluence of anti-capitalism events: the publication and dissemination of anti-capitalist literature, the

popularization of Marx's work in England and the foundation of Labor Parties. Worker movements in Europe reached an apex with the Paris Commune in 1871. Active labor organizations and the potential socialist threat menaced the *status quo* (Henry, 2009, pp. 38).

[9] Truman's doctrine contained the following points: (i) support to the United Nations and related agencies; (ii) continue programs for world economic recovery; (iii) strengthen freedom-loving nations against the dangers of aggression and; (iv) embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas.

[10] My translation

[11] For economists' discussion on this matter *vide* Myrdal (1954) or Meek (1967).

[12] Tucker (2008) argues that both Lenin and Stalin saw the Soviet Union as an island surrounded by hostile capitalist encirclements.

[13] Tracing the beginnings of the Cold War is not an easy task. Historians still disagree with regard to the starting point of the Cold War. For a detailed account of this debate *vide* (Gaddis, 1990).

[14] United Nations, "UN at a Glance": http://www.un.org/en/aboutun/index.shtml (Accessed March 28th, 2011).

[15] The Articles 51-53 of the UN Charter allowed the establishment of regional groups that, in an emergency, could act outside UN auspices until the world took action. "Now the US delightfully had the best of both worlds: the global organization it had sought since Wilson's era, but also the freedom of action under the Monroe Doctrine" (LaFeber, 1983, pp. 93).

[16] In this excerpt, Prebisch was referencing his dismissal as president of the Argentine Central Bank in 1943, the year Juan Peron came to power. Prebisch's dismissal did not, however, fulfill Peron's willingness to keep Prebisch as far as possible from power. Peron made sure that Prebisch became increasingly alienated not only from the political arena, but also from any position that could exert influence on Argentina's economic and political future (Dosman, 2009, pp. 174-233).

[17] Harold Caustin, "Letter from Caustin to Malinowski", February, 1953, in file Regional Commission Section (ECLA), in series Office of the Assistant Secretary-General, S-0932-0015-04. Wladek Malinowski was the chief of the Regional Commission Section in the Department of Economic Affairs. Harold Caustin was the Acting Assistant of the Secretary General in the Department Of Economic Affairs.

[18] According to Prebisch (2001), "ECLA had the reputation of being a potential threat to the policies of the U.S. government, of the Bank and [the] Fund, and GATT" (pp. 20).

[19]Prebisch's interview also gives evidence of that, he described that "when Pierre-Paul Schweitzer became head of the Fund, we got along personally very well. And I remember that in one of the dinners of the Fund he told me, "You know, Raúl, when I joined the Fund you were presented to me as the Devil. I was told to be cautious with you" (Prebisch, 2001, pp. 21-22).

[20] (My translation). Santa Cruz was the Director of ECLA's office in Mexico and Adjunct Secretary-Executive.

[21] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela (United Nations Archives, 1948a, pp. 7).

[22] William Leonard, "Letter from Leonard (Officer in Charge of ECA) to Cordier (Executive Assistant to the Secretary-General)," Sept. 2nd, 1954.

[23] Wladek Malinowski, "Letter from Malinowski to Roy Blough (Principal Director of ECA)," December 7th, 1954.

[24] According to Toye and Toye (2004, pp. 63-80), the UN-ECOSOC was responsible for avoiding economic dislocations that could threaten peace. With that objective in mind, it should rely on the technical work of the Department of Economic Affairs. The goal of collecting and analyzing world-wide economic data and deriving economic policies based on shared world economic goals became impossible during the Cold War; first because countries were "manipulating their economic statistics for purpose of political propaganda" and second because the "world was divided into spheres that operated under radically different economic systems" (pp. 64). In this context, the idealistic and internationally minded UN officials became vulnerable to the spillover of the U.S. domestic anticommunism. In fact, on various occasions the UN was accused of functioning as a "platform for communist propaganda". Faced with this scenario, David Weintraub, a convinced Keynesian and Social-Democrat, had forty-three "derogatory" FBI reports filed. Although, no evidence against him was ever made public, Weintraub "came under pressure from the higher echelons of the UN to resign" (pp.80). Harold Caustin was Weintraub's second deputy. According to Singer (2007, pp. 120), Caustin was not well known as an academic economist, but "he was always well informed, he knew what was going on, his advice was always pertinent. But he himself was in the background. He did not come forward."

[25] As will be shown in more detail in the third section, Myrdal played an important role in development theory debates. By applying Harrod's model to understand underdevelopment, he advocated for government intervention to reduce instability. He worked at the UN as the Executive Secretary of ECE from 1947 to 1957.

[26] For a detailed account on Cold War soft-power intervention *see* (Saunders, 1999).

[27] Supported by various primary sources, Grandin (2006) traces U.S. interventionist policies in Latin America from the stablishment of the Monroe Doctrine to the current period.

[28] Latin American countries experienced recurrent encounters with the CIA. In Guatemala, 1952, for instance, the President Jacobo Árbenz promoted an agrarian reform, expropriating unused and unfarmed land from corporations – such as the United Fruit Company – and from large landholding Guatemalans – including his own family's land – redistributing it to peasants. This reform instigated U.S. intervention, arming and training an *ad-hoc "*Liberation Army" to overthrow Árbenz from power. For a detailed account of the CIA operation in Guatemala see Cullather (1999).

[29] In Chile, the democratically elected, Salvador Allende, was overthrown by a military junta assisted by the CIA following his decision to nationalize foreign firms (Qureshi, 2010).

[30] It is interesting to note that, simultaneously to this deterioration of the standard of living of Latin Americans, the Kennedy administration instituted the Alliance for Progress. According to President Kennedy, this program was supposed to help Latin Americans who "suffer the daily degradations of hunger and poverty, … lack decent shelter or protection from disease [and] are deprived of the education or the jobs which are the gateway to a better life. Therefore I have called on all the people of the hemisphere to join in a new Alliance for Progress - alianza para Progreso - a vast cooperative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of the American people for homes, work and land, health and schools - techo, trabajo y tierra, salud y escuela" (Department of State, 1961, pp. 471-474).

[31] A traditional society "is one whose structure is developed within limited production functions, based on pre-Newtonian science and technology, and on pre-Newtonian attitudes towards the physical world" (Rostow, 1952, pp. 4).

[32] For more information on Harrod's model *see* Kregel 1980).

[33] According to Prebisch (2001, pp. 15) the obstacle was not posed by the UN Headquarters in New York – "I was not concerned about heads in New York. It was in the State Department and in the World Bank. The Bank would not speak of 'planning', but of 'programming'. By the way, many years after, I never used the word 'planning'…. I was speaking of "programming".

[34] Wilhelm Ropke was a prominent member of the Mont Pelérin Society (MPS). As discussed in more details below, in the MPS, Ropke was responsible for the discussion on development policies together with Peter Bauer, Carlo Motteli and John Davenport.

[35] The MPS consisted of a group of economists, historians and philosophers, who aspired to preserve liberalism in thinking and practice. This group first met in Mont Pelérin, Switzerland in 1947, invited by Professor Friedrich von Hayek, to discuss how to deal with the threats imperiling Western values in the post-war era.

[36] In his critique to Keynes's *The End of the Laissez Faire*, Mises stated what would become the neoliberal apology for free markets: "had Keynes (really) spoken of the end of *laissez faire et laissez passer*, then he could not have failed to see that the world today is sick precisely because, for decades, things have not been regulated by this maxim. He who rejoices that peoples are turning away from liberalism, should not forget that war and revolution, misery and unemployment for the masses, tyranny and dictatorship are not accidental companions, but are necessary results of the anti-liberalism that now rules the world." Ludwig von Mises, "Das Ende des Laissez-Faire, Ideen zur Verbindung von Privat- und Gemeinwirtschaft." *Zeitschrift für die gesamte Staatswissenschaft* 82 (1927): 191